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Goodwin's Weekly

"A Thinking Paper for Thinking People"

MERCHANTS BANK INSOLVENT LONG BEFORE THE END.

SO little regarding the inside story of the failure of the Merchant's Bank is known by the public generally and the thousands of depositors, and real information on the subject is seemingly so scarce that we believe it is no more than fair to go into the matter with some facts and figures which the dailies have not published. Possibly they have been unable to secure the information, but whether they have or not, only a vague outline of the reasons for putting the bank in the hands of a receiver have been published and few of the most interesting facts and figures have previously been available.

Following an examination of the condition of the Merchant's Bank, which commenced at 3 o'clock p. m. on May 8, 1918, and closed at noon on May 13, 1918, which was made by S. G. Sargent of Federal Reserve District Number 12 assisted by Charles Stewart and F. W. Ball, a most interesting report was made by the examiners, a number of excerpts from which are published below.

The report contains so much that it is impossible to publish it in full in these columns, but most of the important matter is reprinted. As stated above some details of the original report are lacking, but from the examiners figures and remarks that are reproduced, we believe that those especially interested will have a clearer insight into the affair than heretofore.

In the summary following the report, the examiner remarks that "from the start this bank has had a chequered existence," saying that the bank was unable to meet the demands for the money on deposit by the state, over \$1,000,000, and that though the insolvent condition of the bank was known to the State Banking Department, liquidation was not resorted to. This was in 1914 when W. H. Clark was removed from the bank and Mr. Pingree and Mr. Ford were placed in charge. The examiner says "When they had been in the bank long enough to become familiar with its affairs they found that on a capital of \$250,000 they were carrying over \$700,000 in bad assets." Mr. Sargent's report was made, of course, several weeks before the bank was closed and this time must be taken into consideration when reading the excerpts from his report.

In another part of his resume, the examiner said:

"The Board of Directors is composed of prominent and capable business men, but their stock interests in the bank is small. The active manager, Mr. Pingree and Mr. Ford, are experienced and resourceful bankers. They have done more than could reasonably have been expected toward the rehabilitation of a bank that should long ago have been liquidated, and would have been if the State Bank Commissioner had done his plain duty.

"Various corporations have been organized to take over the assets of insolvent borrowers and the notes of these corporations substituted for those of the original debtors. Assets of every description, good and bad, have been acquired. Most of them are entirely improper as bank investments, but were the only salvage available.

Loans and Discounts, \$1,139,915.66.

"The loans taken as a whole are in a very unsatisfactory condition and need constant attention, if heavy losses are to be prevented. Out of a total of \$1,139,915.66 only \$738,989.75 were found in the bank's possession, the balance of \$390,925.91 being either hypothecated or in the hands of attorneys or collection agencies. Three hundred and eleven notes, aggregating \$332,629.25, were found past due. The officers state that it has been physically impossible for them to send out proper notifications and to give the necessary attention to the

loans during the past thirty days, during which time their note teller has been loaned to the Salt Lake branch of the Federal Reserve Bank, and they are personally busy with the Liberty Loan campaign and other important matters. While it is true that a majority of the delinquent notes have run less than sixty days past maturity, a large number have been due for several months, indicating either negligence on the part of the management or extreme weakness in the loans and ability of the makers to liquidate.

"In analyzing the loans a total of \$169,601.46 has been classed as 'slow.' This amount includes all notes secured by real estate mortgages. No ultimate loss is expected on these loans, but they will have to be carried indefinitely.

"In the 'doubtful' class have been placed notes totaling \$94,505.60. They are in a very unsatisfactory condition, but cannot at this time be classed as definitely 'bad.' There will be some loss, but the amount can only be approximated. It would probably be fair to estimate and it has been the examiner's experience, that at least 50 per cent or about \$47,500.00 will develop further weaknesses before another examination and will ultimately have to be charged to the Profit and Loss account.

"Notes aggregating \$48,734.99 have been classed as 'bad' recovery, if any, will be very small and they should not be carried longer as an asset.

"The Utah law requires that all loans to officers and directors be secured by collateral the value of which is at least twice the loan. Directors' notes, on which no security has been taken, were found as follows:

"L. R. Eccels	\$13,000.00
Pingree, Ford & Binnard	9,500.00

"Note of B. S. Hinckley for \$1,000.00 is secured by 10 shares of bank's own stock. Collateral is both improper and inadequate.

"Loans to officers and directors and to corporations in which they are interested, aggregating \$208,578.84, are not only excessive, but in many instances, represent investments which are of a more or less speculative nature. These obligations should be materially reduced.

Bonds, Stocks and Securities, \$374,782.99.

"It will be noted that the bank's book value of securities listed under this schedule exceeds the examiner's estimate by \$301,548.88. However, it is not to be understood that a loss of this amount will be sustained. An estimated value was placed only on securities, the worth of which could be ascertained; the others must necessarily be classed as 'doubtful.' In the opinion of the examiner, loss on such items will be heavy, but there is no way to determine the amount. They are all improper investments, undesirable as an asset, and in nearly every instance were taken to replace bad loans. The directors profess to believe that the items carried in this account will ultimately yield book value, but it would appear that their optimism is not justified.

Claims and Judgments, \$2,713.32.

"Loss in this account, as estimated by the bank's officers will be \$1,527.94.

Other Real Estate Owned, \$123,678.67.

"Officers are of the opinion that actual values of the properties carried in this account are in excess of book values. Their estimate on the various local properties are checked over with a disinterested party who is of the opinion that no loss will result.